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How financial advisors want the Social Security shortfall handled
By Rob Burgess
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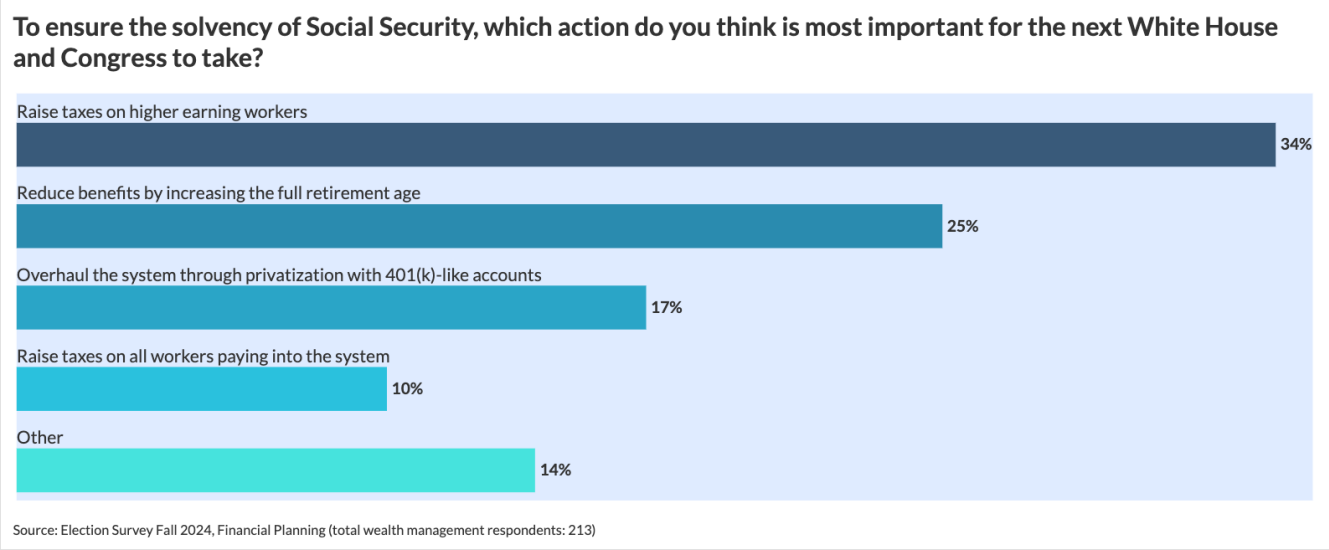
Many voters are concerned about the long-term viability of Social Security this election season, but their ideas on how to safeguard the program for future generations are divided.

In advance of Election Day 2024, Financial Planning polled 213 respondents as a part of its Fall 2024 Election Survey on what actions the next White House and Congress should take to ensure the solvency of Social Security.

By far the most popular proposal was to raise taxes on higher-earning workers, which garnered support from over one-third, 34%, of those surveyed. The next most popular idea was to reduce benefits by increasing the full retirement age, which attracted one-quarter of respondents. Other ideas included overhauling the system through privatization, at 17%, and raising taxes on all workers paying into the system, at 10%.


To ensure the solvency of Social Security, which action do you think is most important for the next White House and Congress to take?
Raise taxes on higher earning workers
34%
Reduce benefits by increasing the full retirement age
25%
Overhaul the system through privatization with 401(k)-like accounts
17%
Raise taxes on all workers paying into the system
10%
Other
14%
Source: Election Survey Fall 2024, Financial Planning (total wealth management respondents: 213)

This topic was also the focus of the panel discussion, "Reforming Social Security Sooner Rather Than Later: What Will the Next Congress and President Face? What Are the Options?" at the annual meeting of the American Academy of Actuaries, which was held this week in Washington, D.C.

History of the program, and the anticipated shortfall

Social Security is a basic monthly income for insured workers after their retirement, after becoming disabled and for their survivors after death, said Stephen Goss, chief actuary of the Social Security Administration. Monthly benefits have been paid timely starting in 1940, without exception. However, these scheduled benefits are not promises, as they can be changed by Congress at any time, said Goss. The same is true for tax contributions. Virtually all workers are now covered under Social Security.

"I think we do not have to worry about Social Security benefits still being there and available in the future," he said. "But the promises for the absolute nature, size and timing of benefits are flexible in the future."

The Old-Age and Survivors Insurance (OASI) Trust Fund and the Disability Insurance (DI) Trust Fund are now projected to be depleted by 2035, which is 13 months later than it had been projected last year. The reserve depletion date has varied from 2033 to 2035 in reports over the past 13 years and from 2029 to 2042 in reports over the past 30 years.

That anticipated date of depletion in 2035 is nearly three decades earlier than it was projected to be when the 1983 Social Security Amendments were passed.

Goss said this is not due to increased longevity or drop in birth rates, which were both accounted for in 1983, but because of increasing cost relative to payroll and GDP. The ratio of taxable earnings to all covered earnings has declined since 1983 due to increasing concentration of earnings at the top of the distribution.

Incomes subject to Social Security payroll taxes are capped at $168,600, and will rise to $176,100 next year. Above that, earnings are not taxed for Social Security.

Between 1983 and 2000, the average annual earnings for the top 6% rose 62% more than the consumer price index (CPI), but only 17% more for the other 94% of earners. The ratio dropped to 82.5% by 2000 and has remained there except for cyclic effects. This drop was not anticipated in 1983.

In addition, the depth of the 2007–09 recession and slow recovery further reduced expected trust fund accumulation through 2019, said Goss.

Therefore, there is a need to adjust the benefits or revenue given the shift in the age distribution. By 2035, lawmakers will need to lower scheduled benefits by one-quarter, or raise revenue by one-third, or some combination.

New sources of revenue, and possible benefit reductions

Wages are currently taxed up to $168,000, covering 82% of all wage income, said Joel Eskovitz, director of Social Security and savings for the AARP Public Policy Institute. In 1983, the payroll tax applied to 90% of all wage income.

Almost every reform plan or package is structured to fund the program on a 75-year timeline, but most benefit changes — and the realization of the associated

savings — may not kick in for decades, said Eskovitz. For example, the program is still phasing in changes to the retirement age passed over four decades ago.

Cost of living adjustment (COLA) changes may be one exception, he said, but in this era of high inflation, reducing it would be very unpopular.

"Unless a significant amount of revenue is injected into the system in the next decade, stopgap funding will be needed in 2035," said Eskovitz.

The 1983 menu of revenue options — which included borrowing from the DI Trust Fund, a delayed COLA for six months and increased FICA taxes on the self-employed — would not work now.

"None of these approaches is viable today or would solve a significant amount of the shortfall," said Eskovitz.

Solutions that would be workable today could include borrowing or rerouting from general revenue or existing federal programs or sending money from taxation of benefits to the Social Security trust fund instead of the Medicare trust fund. This latter fix would result in lower spending, higher taxes and more federal debt.

Congress could create a new dedicated tax specifically for Social Security. In addition, new taxes on carbon, capital gains and estates have all been considered. Ultimately, it could mean that Social Security funding would be subject to the annual appropriations process, meaning uncertain benefit levels and the possibility of impacts from government shutdowns.

"There are only so many ways to increase taxes," said Emerson Sprick, senior economic analyst at the Bipartisan Policy Center.

With only so many new revenue sources available, there may have to be benefit reductions, as well, said Ron Gebhardtsbauer, emeritus professor of actuarial science at Penn State.

"There is not enough support in Congress for tax increases only," he said. "Congress prefers large bipartisan votes for Social Security-related issues. These reforms are easier to enact if they are offset by benefit reductions."